

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Ubuntu Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ubuntu Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Ubuntu Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Receivables from exchange transaction

3. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions and the related impairment, as I could not verify the existence of debtors due to debtor accounts that were closed or inactive, in addition to this no subsequent billing was done. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from exchange transactions stated at R81 146 261 and related allowance for impairment R74 916 078 in note 7 to the financial statements was necessary.

Receivables from non-exchange

4. I was unable to obtain sufficient appropriate audit evidence for the amounts written off as uncollectible due to the status of the accounting records at the municipality. I was unable to confirm the amounts written off as uncollectible by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to amounts written off as uncollectible stated at R94 400 020 (2018: R0) in note 5 to the financial statements was necessary.
5. During 2018, I was unable to obtain appropriate audit evidence that traffic fines and the related provision for impairment of receivables from non-exchange transaction has been properly accounted for due to the status of the accounting records. I was unable to confirm the traffic fines by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to traffic fines stated at R 156 324 065 and the related provision of impairment

of receivables from non-exchange transaction stated at R147 506 919 as disclosed in note 5 to the financial statements was necessary.

Unauthorised Expenditure

6. I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure incurred during the year under review, as well as the opening balance of unauthorised expenditure, due to the status of the accounting records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unauthorised expenditure stated as R349 100 400 (2018: R 319 365 944) in note 43 to the financial statements.

Irregular Expenditure

7. The municipality did not disclose all irregular expenditure in the notes to the financial statements as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention with the supply chain management requirement (SCM) requirements, resulting in irregular expenditure being understated. I was unable to determine the full extent of the understatement in the current and prior financial years. Due to the lack of sufficient appropriate systems, I was unable to confirm the disclosure of irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure of R62 060 405 (2018: R55 867 507), as disclosed in note 45 to the financial statements, was necessary.

Revenue from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence that the interest on overdue accounts for the current year had been properly accounted for, the municipality does not have an approved tariff list supporting the interest levied on outstanding accounts. I was unable to confirm the interest received (trading) by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to interest received (trading) stated at R9 053 016 in the financial statements.
9. I was unable to obtain sufficient appropriate audit evidence that the indigents subsidies for the current and previous year had been properly accounted for as the municipality does not have an approved indigents policy. I was unable to confirm the indigents subsidies by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to indigent subsidies stated at R5 508 423 (2018: R2 019 837) in note 19 to the financial statements.
10. During 2018, the municipality did not recognise all service charges accurately in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not maintain adequate and complete records of services rendered. I was unable to determine the full extent of the understatement of service charges as it was impracticable to do so. Consequently, receivables from exchange transactions and VAT receivable were understated. My opinion on the on the financial statements of 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified, because of the possible effect of this matter on the comparability of the service charges for the current period.

Revenue from non-exchange transactions

11. During 2018, I was unable to obtain sufficient appropriate audit evidence for speed fines and to confirm the speed fines by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to speed fines in fines, penalties and forfeits stated at R33 243 700 in note 25 to financial statements. My audit opinion on the financial statements for the period ended insert date 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of fines, penalties and forfeits.

Fruitless and fruitless expenditure

12. The municipality did not disclose all fruitless and wasteful expenditure in the notes to the financial statements as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention with section 62(1)(d) of the MFMA, resulting in fruitless and wasteful expenditure being understated by an unknown amount in both the current and prior financial years. In addition, I was unable to obtain sufficient and appropriate audit evidence for fruitless and wasteful expenditure, as underlying records were not available to substantiate the balance. I was not able to confirm the amount of fruitless and wasteful expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment to fruitless and wasteful expenditure of R25 139 950 (2018: R17 596 135), as disclosed in note 44 to the financial statements, was necessary.

Employee benefits

10. I was unable to obtain sufficient appropriate audit evidence for post-retirement medical aid benefit, as underlying records were not available to substantiate the balance. I was unable to confirm employee benefits by alternative means. Consequently, I was unable to determine whether any adjustment to employee benefits, stated at R4 519 000 (2018: R4 642 000) in note 16 to the financial statements, was necessary.

Provisions

13. I was unable to obtain sufficient appropriate audit evidence for the provision on environmental rehabilitation as the municipality did not provide the input data used to determine the assumptions made for the current year and previous year. I was unable to confirm the provision on environmental rehabilitation by alternative means. Consequently, I was unable to determine whether any adjustments to provision on environmental rehabilitation stated at R5 140 591 (2018: R4 730 240) in note 18 to the financial statements was necessary.

Context for the opinion

14. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
15. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants and, parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA codes)

as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

16. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.
18. I draw attention to statement of performance, which indicates that the municipality incurred a net loss of R27 679 402 (2018: R18 400 823), these events or conditions, along with other matters as set forth in note 47, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

19. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

20. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of errors in the financial statements of the Municipality at, and for the year ended, 30 June 2019.

Material losses – electricity

21. As disclosed in note 46 to the financial statements, material electricity losses of R5 459 216 (2018: R5 456 688) was incurred, which represents 31% (2018: 43%) of total electricity purchased

Other matter

22. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes (MFMA 125)

23. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

24. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

25. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and the Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
26. In preparing the financial statements, the accounting officer is responsible for assessing Ubuntu Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

27. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.
28. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report

Report on the audit of the annual performance report

Introduction and scope

29. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
30. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priority	Pages in the annual performance report
Development priority: KPA 1: Basic Service Delivery and Infrastructure Development	x – x

31. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
32. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

Development priority: KPA 1: Basic Service Delivery and Infrastructure Development

33. I was unable to obtain sufficient appropriate audit evidence for the annual performance report selected development priority as the annual performance report was presented without accurate and complete underlying performance records. I was therefore unable to audit the usefulness and reliability of the reported performance information. This was due to limitations placed on the scope of my work. I was unable to audit the reported performance information for this selected development priority by alternative means.

Report on the audit of compliance with legislation

Introduction and scope

34. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
35. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements and annual reports

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
37. The 2017/18 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Expenditure Management

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance that caused majority of the irregular expenditure.

40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue accounts.
41. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred. The majority of the disclosed unauthorised expenditure was caused by overspending of the budget.

Revenue management

42. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
43. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset management

44. Investment policy that adopted by council was not in place, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).

Strategic, planning and performance

45. Amendments to the IDP were made without making the proposed amendments available for public comment, as required by section 34(b) of the MSA and municipal planning and performance management reg 3(4)(b) and 15(1)(a)(ii).
46. Amendments to the IDP were made without consultation with the district municipality, as required by municipal planning and performance management reg 3(6)(a)
47. The performance management system and related controls were inadequate as it did not describe how the performance planning/ monitoring/ measurement/ review/ reporting/ improvement processes should be conducted and managed, as required by municipal planning and performance management reg 7(1).

Procurement and contract management

48. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
49. Sufficient appropriate audit evidence could not be obtained that quotations were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
50. The preference point system was not applied to all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.

Human Resource Management

- 51. I was unable to obtain sufficient appropriate audit evidence that candidates appointed as senior managers submitted proof of previous employment prior to signing employment contracts, as required by municipal performance regulations for municipal managers and managers directly accountable to municipal managers 4(4)(b).
- 52. Financial interest was not disclosed by the senior manager within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.
- 53. I was unable to obtain sufficient appropriate audit evidence that job descriptions were established for all posts in which appointments were made, as required by section 66(1)(b) of MSA.
- 54. I was unable to obtain sufficient appropriate audit evidence that a senior manager signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Consequence management

- 55. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
- 56. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

<h2>Other information</h2>

- 57. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
- 58. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
- 59. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
- 60. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

Internal control deficiencies

61. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
62. Leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management unit, which resulted in the re-occurrence of the material misstatements and compliance issues identified.
63. Leadership did not exercise their oversight responsibility to ensure that proper internal control procedures were developed and implemented that would enable the municipality to submit accurate and complete annual financial statements and annual performance report.
64. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
65. The municipality did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Vacancies was also experience on key positions which impacted negatively on monitoring of controls.
66. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Auditor General

Kimberley

6 December 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ubuntu Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.